

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAJ-01 SAM-01 CU-02 /087 W
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R 300831Z SEP 76
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 2177
INFO USLO PEKING
AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMEMBASSY SINGAPORE
CINCPAC
FBIS OKINAWA

S E C R E T SECTION 1 OF 2 HONG KONG 11427

NOFORN

CINCPAC FOR POLAD

E.O. 11652: XGDS-2
TAGS: ECON, CH
SUBJECT: PRC INDUSTRIAL PERFORMANCE-PROBLEMS BEGIN TO SHOW

SUMMARY: SINCE THE FIRST THREE MONTHS OF THE YEAR,
RELATIVELY LITTLE STATISTICAL INFORMATION ON CHINESE
INDUSTRIAL PERFORMANCES HAS BEEN PUBLICIZED. THE ONLY WRAP
UP OF THE ECONOMY FOR THE FIRST HALF OF APPEARED IN THE JULY
28 ISSUE OF ECONOMIC REPORTER, A PRC PUBLICATIONS IN HONG
KONG. WHILE IT DISCLOSED THAT THE COUNTRY'S INDUSTRIAL
OUTPUT ROSE BY SEVEN PERCENT COMPARED TO THE FIRST HALF
OF 1975, PROVINCIAL DATA IS TOO SCATTERED AND FRAGMENTARY TO
PROVIDE MUCH STATISTICAL SUPPORT. THE SAME DISUATION PRE-
VAILE FOR MOST OF THE MAJOR INDUSTIAL SECTORS, FOR WHICH
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PROVINCIAL CLAIMS ARE UNUSUALLY SPARSE AND FRAGMENTARY.

ASSUMING THAT THIS PERCEPTION IS NOT CHANGED BY A SPATE OF PUBLICITY ABOUT ECONOMIC ACHIEVEMENT, SUGGESTS THAT ECONOMIC PERFORMANCE HAS BEEN LESS THAN SATISFACTORY SO FAR THIS YEAR. NUMEROUS REPORTS OF POOR WORKER-MANAGEMENT RELATIONS AND WORKER INDISCIPLINE CONVEY AN IMPRESSION OF LOW WORKER MORALE. LACK OF HARD INFORMATION PREVENTS ONE FROM CARRYING THIS SPECULATION TOO FAR, BUT IF TENG'S FALL HAS LOWERED WORKER EXPECTATIONS FOR WAGE REVISION, IT WOULD LOGICALLY CONTRIBUTE TO MALISE AND APATHY AND PROBABLY TAKE SOME OF THE STEAM OUT OF PRODUCTION. GUIDANCE FROM THE CENTER SINCE MID-YEAR APPEARS TO REFLECT JUST THIS KIND OF CONCERN-A NEED TO MOTIVATE THE LABOR FORCE--USING FIRST AND THEN MAO'S DEATH TO APPEAL FOR EXTRA EFFORT. AS CHINA'S ECONOMY BECOMES MORE COMPLEX, A MORE SOPHISTICATED APPROACH IS NEEDED FOR HANDLING REWARDS TO WORKERS AND WORKER-MANAGEMENT RELATIONS. AT PRESENT WE SEE NO SIGN THAT CHINA'S LEADERS ARE FACING THIS PROBLEM. END SUMMARY

1. THE ONLY WRAP UP OF THE PRC'S ECONOMY FOR THE FIRST HALF OF 1976 HAS APPEARED IN THE JULY 28 ISSUE OF ECONOMIC REPORTER, A PRC PUBLICATION IN HONG KONG (HK 8914). IT DISCLOSED THAT THE COUNTRY'S TOTAL VALUE OF INDUSTRIAL OUTPUT ROSE BY SEVEN PERCENT AND THAT 26 PROVINCES OUT OF 29 SHOWED INCREASES OF "VARYING DEGREE." HOWEVER, PROVINCIAL DATA IS TOO SCATTERED TO PROVIDE STATISTICAL SUPPORT. THIRTEEN PROVINCIAL UNITS MADE SOME SORT OF STATEMENT ON MID-YEAR INDUSTRIAL PERFORMANCE-EITHER ON FULFILLMENT OF PLAN OR A PERCENTAGE INCREASE OVER THE FIRST HALF OF 1975. THESE PROVINCES ACCOUNT FOR AN ESTIMATED 57 PERCENT OF CHINESE INDUSTRIAL OUTPUT. ONLY EIGHT, HOWEVER, ACCOUNTING FOR LESS THAN 30 PERCENT OF PRC INDUSTRY MADE PERCENTAGE INCREASE CLAIMS, WHICH IS TOO SMALL A STATISTICAL SAMPLE TO ESTIMATE OVERALL INDUSTRIAL PERFORMANCE. THE SAME SITUATION PREVAILS FOR MOST OF THE MAJOR SECTORS, WHERE, WITH THE POSSIBLE EXCEPTION OF COAL, PROVINCIAL CLAIMS ARE UNUSUALLY SPARSE AND FRAGMENTARY. (ANALYSIS OF SPECIFIC ECONOMIC CLAIMS TO FOLLOW BY AIRGRAM.)

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2. THE ABSENCE OF ANY NATIONAL PUBLICITY ON FIRST HALF ECONOMIC PERFORMANCE (OTHER THAN THAT IN THE ECONOMIC REPORTER) COMBINED WITH THE RETICENCE OF PROVINCES AND INDIVIDUAL INDUSTRIAL SECTORS TO TALK ABOUT PRODUCTION ACHIEVEMENTS RAISES THE POSSIBILITY THAT ECONOMIC PERFORMANCE HAS BEEN LESS THAN SATISFACTORY. THE RECORD IN THE FIRST THREE MONTHS OF THE YEAR, HOWEVER, WAS VERY

GOOD WITH CLAIMED OUTPUT RUNNING ABOVE LONG-TERM AVERAGES IN VIRTUALLY ALL THE SECTORS OF THE ECONOMY (HK 4537). BY CONTRAST, THE FIRST HALF PERCENTAGE GROWTH FOR EVERY SECTOR COVERED IN THE ECONOMIC REPORTER PIECE WAS LOWER THAN THAT CLAIMED FOR THE FIRST QUARTER FOR THE MOST PART, THIS IS PROBABLY A REFLECTION OF DIFFERENT PERFORMANCE IN THE 1975 PERIODS WHICH PROVIDE THE BASE OF COMPARISON, BUT IT MAY ALSO BE A SIGN THAT THE PACE IS SLOWING DOWN.

3. UNDER PRESENT CONDITIONS IN THE CHINESE ECONOMY, WORKER MOTIVATION IS PROBABLY THE KEY TO HIGHER PRODUCTIVITY. BEGIN SECRET/NOFORN. STUDY OF PLANT CONSTRUCTION IN 10 KEY SECTORS OVER THE LAST FIVE YEARS INDICATES A SLACKENING IN THE PACE OF INVESTMENT IN DOMESTICALLY DESIGNED PLANTS. THIS IS PARTIALLY OFFSET BY A RISE IN CONSTRUCTION OF IMPORTED PLANTS, BUT WILL PROBABLY LEAD TO A DROP IN THE RATE OF GROWTH IN CAPACITY FOR A NUMBER OF KEY INDUSTRIES DURING THE NEXT FEW YEARS (ER 76 10446) END SECRET/NOFORN. WHILE THIS MAY NOT LEAD TO A DECLINE IN PRODUCTION, IT WILL PUT MORE PRESSURE OF FULL UTILIZATION OF EXISTING CAPACITY, WHICH IN TURN WILL REQUIRE A HIGHLY MOTIVATED AND DISCIPLINED WORK FORCE. HOWEVER, IT IS PRECISELY THIS AREA THAT IS BEGINNING TO SHOW FRAYED EDGES.

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4. LACK OF HARD INFORMATION PREVENTS ONE FROM CARRYING THIS SPECULATION TOO FAR. IF SOME OF THE STEAM HAS GONE OUT OF THE PRODUCTION PUSH, A LIKELY CAUSE IS WORKER MALAISE AND APATHY IN THE FACE OF LESSENERD EXPECTATIONS OF IMPROVEMENT IN LIVING STANDARDS AFTER TENG'S FALL. NUMEROUS INTELLIGENCE REPORTS OF WORKERS DISSATISFACTION LEADING TO SLOWDOWNS, ABSENTEEISM AND POOR LABOR DISCIPLINE CONVEY A SIMILAR IMPRESSION OF LABOR APATHY, ALTHOUGH SUCH REPORTS ADMITTEDLY TEND TO BE CONCENTRATED IN HISTORICALLY TROUBLE-PRONE AREAS.

5. AS AN EXAMPLE OF CURRENT LABOR PROBLEMS, JAPANESE TECHNICIANS AT THE CHIN SHAN PETROCHEMICAL PLANT CONSTRUCTION PROJECT HAVE DESCRIBED THE WORKER-MANAGEMENT
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ATMOSPHERE THERE AS BEING EXTREMELY POOR. RELATING THIS INFORMATION TO THE JAPANESE CONGEN IN HONG KONG, THEY REPORTED THAT POOR DISCIPLINE AMONG THE WORKING FORCE HAD LED TO INNUMERABLE DELAYS AS CADRE MANAGERS WERE EXTREMELY RELUCTANT TO MAKE DECISION FOR FEAR OF BEING CRITICIZED OR WERE NOT FORCEFUL IN ENSURING THAT DECISIONS MADE WERE CARRIED OUT. THIS LED TO SITUATIONS WHERE WORKERS IGNORED ORDERS TO CARRY OUT ELEMENTARY STANDARDS OF SITE CLEANLINESS AND EQUIPMENT MAINTANCE, WHICH WENT NEGLECTED UNTIL MANAGER FINALLY UNDER TOOK THE WORK.

6. ALTHOUGH WE HAVE NO WAY OF MEASURING IT, OUR IMPRESSION IF THAT THIS TYPE OF EXPERIENCE IS PROBABLY TYPICAL--IN VARYING DEGREES OF SERIOUSNESS--IN MOST STATE-RUN ENTERPRISES. (IT MAY NOT EXTEND, HOWEVER, TO THE

SMALL, LOCALLY RUN PLANTS WHERE EMPLOYEMNT IN AN INDUSTRIAL ENTERPRISE IS ITSELF A REWARD OFFERING AN OPPORTUINITY TO ESCAPE MORE DIFFICULT WORK IN THE FILEDS. COMBINED WITH A PRSUMED RESIDUE OF DISAPPOINTMENT OVER WAGES, AN ATMOSPHERE OF THIS TYPE EASILY LENDS ITSELF TO FACTIONALSIM AND SERIOUS DISRUPTIONS TO PRODUCTION IN MORE EXTREME CASES. THIS IS, OF COURSE A GRAY AREA THAT

DEFIES QUANTIFICATION, BUT SOME REGIONS--FUKIEN AND
CHEKAING--COME READILY TO MIND AND SOME INDUSTRIES-RAILWAYS
IN PARTICULAR--SEEM TO EXHIBIT MORE EXTREME LABOR PROBLEMS
THAT ELSEWHERE. IN THE VAST MAJORITY OF ENTERPRISES,
DISSATISFACTION WITH WORKING CONDITIONS PROBABLY TAKES
A Milder FORM OF LOW MORALE AND UNINSPIRED PERFORMANCE.

7. GUIDANCE FROM THE CENTER SINCE MID-YEAR APPEARS
TO REFLECT JUST THIS KING OF CONCERN--A NEED TO MOTIVATE
THE LABOR FORCE, USING THE TANGSHAN EARTHQUAKE
AND THEN MAO'S DEATH TO APPEAL FOR EXTRA EFFORT. IN
ONE SENSE IT IS AN INDIRECT ADMISSION THAT LEFTIST
EMPHASIS ON WORKER PARTICIPATION IN MANAGEMENT IS A
POOR SUBSTITUTE FOR MATERIAL INCENTIVES AND HAS NOT
BEEN ENOUGH TO ELICIT GREATER DEVOTION TO PRODUCTION
FROM THE LABOR FORCE. IN THE SHORT RUN SUCH APPEALS
MAY GENERATE A TEMPORARY RESPONSE, BUT PRODUCTION
BASED ESSENTIALLY ON EXHORTATION CAN CARRY ON ECONOMY
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ONLY SO FAR. PARTICULARLY AS THE CONOMY BECOMES
MORE COMPLEX, IT WILL REQUIRE MORE SOPHISTICATED
MECHANISMS FOR MESHING INCREASINGLY DIVERSE PARTS,
CAPABLE OF PRODUCING VARIED KINDS OF PRODUCTS. A
KEY PART OF THIS PROBLEM WILL INVOLVE SATISFYING THE
MATERIAL ASPIRATIONS OF A MODERN LABOR FORCE AND
DEVELOPING A SUITABLE LABOR-MANAGEMENT FRAMEWORK FOR
OPERATING MODERN AND COMPLEX ENTERPRISE. EVENTUALLY
PERFORMANCE WILL SUFFER UNLESS THESE KINDS OF FUNDAMENTAL
QUESTIONS IN THE WAGE AND LABOR RELATIONS AREA ARE FACED.
AT PRESENT WE SEE NO SIGN THAT THEY ARE.
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